

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2432 - SB 2507

March 14, 2016

SUMMARY OF BILL: Requires public institutions of higher education to establish a tuition-freeze upon each student's entry into the institution. The tuition freeze program shall consist of two parts: (1) a tuition-freeze for the first two years of a student's postsecondary career and (2) another tuition freeze beginning with the third year of undergraduate study. Provided a student remains eligible for the program, no increase in tuition and fees shall be made in the student's fourth or fifth year. Sets forth the requirements for students to meet initial and continuing eligibility.

Authorizes students who have successfully maintained eligibility for the tuition-freeze program through the second year of undergraduate study to apply to the institution for the second tuition-freeze program for the third year. Authorizes a student who successfully maintains eligibility through the second year of undergraduate study to transfer to another public institution of higher education after the second year and continue to qualify for the tuition-freeze program. Requires such students to reapply for the tuition-freeze program at the institution to which they are transferring.

A student will not be eligible for a tuition-freeze program, if the student transfers at any time other than after the student's second year of undergraduate study. If a student at any time fails to comply with any of the eligibility requirements of the tuition-freeze program, then the student will become ineligible and will not be able to re-enter the program.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - \$150,000/FY16-17/TBR
\$121,000/FY16-17/UT**

Other Fiscal Impact –Based on the historical trend of tuition increases at both UT and TBR institutions, it is reasonably estimated that UT and TBR will experience forgone revenue for each class of eligible sophomores that receive a tuition freeze beginning in FY17-18 and for each class of eligible seniors beginning in FY19-20.

Based on an adopted range of zero to three percent for FY16-17 and a projected similar range for future years, the forgone revenue for the UT system is estimated to be an amount up to \$1,081,700 in FY17-18 and is estimated to exceed this amount in FY18-19 and subsequent years. Forgone

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revenue for TBR universities and community colleges is estimated to be an amount up to \$2,841,600 in FY17-18 and is estimated to exceed this amount in FY18-19 and subsequent years.

General Assumptions Relative to TBR and UT Tuition Rates:

- Based on information from the Tennessee Higher Education Commission (THEC), TBR four-year universities have increased tuition every year since 1988, which is as far back as THEC records go.
- Based on information from UT, the last time UT did not increase their tuition rate was 1984.
- Based on information from UT and TBR, in-state undergraduate tuition and fee revenue is estimated to increase by at a minimum of three percent from FY15-16 to FY16-17 in the absence of this bill.
- Due to the anticipation of an increase in tuition revenue and also the historical increase in tuition in each year over the past 30 years, the fiscal impact to tuition revenue is estimated to be forgone revenue to both the TBR and UT systems.
- THEC adopted a range of zero to three percent for tuition increases for the 2016-2017 school year in the fall of 2015.

Assumptions relative to One-Time increases in state expenditures:

- According to TBR and UT, both systems will work directly with their database developer (Banner) to modify their Banner systems in FY16-17 to prepare for the new tuition freeze that will be established for incoming freshman students in FY16-17 and subsequent fiscal years.
- Based on the costs for other Banner modifications, UT indicates that the cost for changes to the UT Banner system would be approximately \$121,000. Based on information from TBR for similar changes, TBR indicates that the cost for changes to their Banner system is estimated to be \$150,000. Both systems would require negotiation of a statement of work (SOW) with the vendor to perform this work. The total one-time increase in state expenditures is estimated to be \$271,000 (\$121,000 + \$150,000) in FY16-17.

Assumptions relative to the University of Tennessee:

- No forgone tuition or fee revenue in FY16-17 since all cohorts of students will be paying the tuition rate that they would have paid under current law.
- Based on information from UT, tuition and fees will increase at UT member institutions by an average of three percent each year.
- Based on information from UT, the tuition rate in FY16-17 is estimated to be \$10,947 and \$11,275 (\$10,947 x 103.0%) in FY17-18.
- The average difference in tuition rates in FY17-18 and FY16-17 is estimated to be \$328 (\$11,275 - \$10,947).

- Based on information from UT, 3,298 sophomores will be eligible for the tuition freeze in FY17-18. This number is estimated to increase annually as more students join the program.
- Forgone revenue to UT institutions is estimated to be \$1,081,744 (3,298 students x \$328) in FY17-18 and is estimated to exceed this amount in FY18-19 and subsequent years.

Assumptions relative to TBR Universities:

- No forgone tuition or fee revenue in FY16-17 since all cohorts of students will be paying the tuition rate that they would have paid under current law.
- Based on information from TBR, tuition and fees will increase at TBR universities by an average of three percent each year.
- Based on information from TBR, the average tuition and fee rate at a TBR university in FY16-17 is estimated to be \$8,219 in FY16-17 and \$8,466 (\$8,219 x 103.0%) in FY17-18.
- Based on information from TBR, 8,494 sophomores will be eligible in FY17-18. This number is estimated to increase each year as more students join the program.
- The average difference in tuition and fees in FY17-18 and FY16-17 is estimated to be \$247 (\$8,466 - \$8,219).
- Forgone revenue to TBR universities is estimated to be \$2,098,018 (8,494 students x \$247) and is estimated to exceed this amount in FY18-19 and subsequent years.

Assumptions relative to TBR Community Colleges:

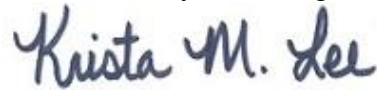
- No forgone tuition or fee revenue in FY16-17 since all cohorts of students will be paying the tuition rate that they would have paid under current law.
- Based on information from TBR and from historical averages, the increase in tuition and fees at community colleges is estimated to increase at least two percent annually.
- Based on information from TBR, the average estimated tuition and fee rate at a TBR community college is estimated to be \$4,143 in FY16-17; the average tuition and fee rate in FY17-18 is estimated to be \$4,226 (\$4,143 x 102%).
- The average difference in tuition and fees at a TBR community college in FY17-18 and FY16-17 is estimated to be \$83 (\$4,226 - \$4,143).
- Based on information from TBR, 8,959 sophomores at TBR community colleges will be eligible in FY18-19. This number is estimated to increase each year as more students join the program.
- Forgone revenue to TBR community colleges is estimated to be \$743,597 (8,959 students x \$83) in FY17-18 and is estimated to exceed this amount in FY18-19 and subsequent years.

Historical Trends:

- All historical trends are based on information received from the General Assembly Legislative Budget Office.
- The cumulative increase in in-state undergraduate full-time equivalent enrollment (FTE) at public four-year institutions statewide, from FY01-02 to FY15-16, was 16 percent.
- The cumulative increase in state appropriations to public four-year institutions, from FY01-02 to FY15-16, was 23 percent.
- The cumulative increase in in-state tuition and fee revenue from graduate and undergraduate programs at TBR four-year institutions, from FY01-02 to FY15-16, was 187 percent.
- The cumulative increase in in-state tuition and fee revenue from graduate and undergraduate programs at UT institutions, from FY01-02 to FY15-16, was 202 percent.
- The cumulative increase in in-state tuition and fees revenue from graduate and undergraduate programs across all four-year public institutions statewide, from FY01-02 to FY15-16, was 193 percent.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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